

Message Text

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UNCLAS LUXEMBOURG 0550

PASS TREASURY

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TAGS: EFIN, LU

SUBJ: REDUCTION IN US BANKING PRESENCE IN LUXEMBOURG

1. SUMMARY AND COMMENTS: TWO US BANK BRANCHES WILL HAVE CLOSED IN LUXEMBOURG BY MID-1976. BOTH WERE ESTABLISHED HERE IN 1973 AT THE CREST OF AMERICAN BANK EXPANSION INTO EUROPE. SINCE THEN, THE HERSTATT COLLAPSE AND A CHANGED BANKING CLIMATE IN THE US HAVE CLEARLY BROUGHT ABOUT A RE-EVALUATION OF THE PURPOSE AND NEED FOR AN OVERSEAS OPERATION. IN THE FIRST LOCAL INSTANCE, INDIANA NATIONAL BANK, BUSINESS NEVER REALLY GOT MUCH OFF THE GROUND. THE SECOND CASE, EQUIBANK, REFLECTED A DUPLICATION - AT HIGH COST - OF INTERNATIONAL OPERATIONS CONDUCTED OUT OF US HEADQUARTERS AND NASSAU; ALSO A VANISHED NEED FOR EURODOLLAR FUND RAISING. IN BOTH THESE CASES, THE US BANKS WERE BRANCHES, NOT SUBSIDIARIES. THE LUXEMBOURG UNCLASSIFIED

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BANKING COMMISSION IS KNOWN TO FAVOR THE LATTER FORM OF

OPERATION. SEVERAL MONTHS AGO, COMMISSIONER DONDELINGER ALSO WONDERED OUT LOUD TO ECONOFFICER ABOUT WHY CERTAIN AMERICAN BANKS WERE HERE GIVEN THE SMALLNESS OF THEIR OPERATIONS. THERE ARE NO RUMORS OF FURTHER US BANK CLOSINGS ALTHOUGH FOUR BRANCHES REMAIN AMONG AN "ACTIVE" TOTAL OF ELEVEN BANKS. THE INTERNATIONAL BANKING COMMUNITY HERE, HAVING STABILIZED AT ABOUT 80 IN 1975, AFTER SEVERAL YEARS OF RAPID GROWTH, HAS STARTED TO ADD NEW MEMBERS. DESPITE THESE TWO US DROPOUTS, THE TOTAL IS INCHING TOWARD THE MID-EIGHTIES. REFLECTING HIGHER CAPITAL REQUIREMENTS AND STANDARDS, ALL NEWCOMERS ARE MAJOR BANKS AND NO NOVICES IN THE INTERNATIONAL SPHERE. (END SUMMARY)

2. EARLIER THIS YEAR, THE INDIANA NATIONAL BANK ANNOUNCED THE CLOSING OF ITS OFFICE HERE. AFTER THE OPENING OF A REPRESENTATIVE OFFICE IN LONDON, THIS BRANCH WAS THE FIRST OVERSEAS VENTURE OF THE INDIANAPOLIS-BASED BANK TO EXPLORE INTERNATIONAL BANKING OPPORTUNITIES. OPENING IN LATE 1973, ONLY SHORTLY BEFORE THE HERSTATT COLLAPSE, THIS WAS PERHAPS NOT THE MOST PROPITIOUS MOMENT TO BE THE NEW MAN IN TOWN. THE BRANCH SEEMS TO HAVE BEEN UNABLE TO CARVE OUT ITS OWN NICHE IN THE INTERNATIONAL BANKING SCENE AND PROGRESSIVELY REDUCED THE SIZE OF ITS OFFICE. THE PARENT BANK DECIDED TO ABANDON THIS EFFORT AND CLOSED IN SPRING OF 1976.

3. EQUIBANK N.A. WITH HEADQUARTERS IN PITTSBURGH HAS JUST ANNOUNCED ITS INTENTION TO CLOSE ITS LUXEMBOURG BRANCH WHICH SHOULD TAKE EFFECT BY JULY 1. IN ALL LIKELIHOOD, EQUIBANK WILL MAINTAIN ONE RESIDENT US OFFICER HERE WITH A BRIEF TO COVER EUROPE, INCLUDING EASTERN EUROPE WHERE THE BANK HAS SHOWN SPECIAL INTEREST. EQUIBANK OPENED IN MID-1973 AND WAS A MUCH LARGER FORCE THAN INDIANA NATIONAL. ITS DECISION TO CLOSE WAS BASED ON SEVERAL FACTORS. THE HIGH COST OF MAINTAINING A FULL-SCALE OFFICE HERE BECAME HARD TO JUSTIFY GIVEN A GREATLY INCREASED ABILITY AT THE PITTSBURG HEAD-QUARTERS INTERNATIONAL DIVISION TO HANDLE OVERSEAS ACCOUNTS AND AT LOWER COST. ALSO, THE ACTIVITIES IN UNCLASSIFIED

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LUXEMBOURG DUPLICATED THE EFFORT OF THE BANK'S "PAPER BRANCH" OFFICE IN NASSAU RUN, AS IS USUAL, VIRTUALLY OUT OF THE US HEADQUARTERS. LUXEMBOURG'S HIGH WAGE COSTS-AGGRAVATED BY INDEXATION, HIGH TAXATION AND LACK OF TAX TREATIES WITH SEVERAL IMPORTANT COUNTRIES, ALL WORKED AGAINST COST EFFECTIVENESS HERE VIS-A-VIS THE USA. IN ADDITION, ONE OF EQUIBANK'S PRINCIPAL REASONS FOR ESTABLISHING HERE WAS TO ATTRACT ADDITIONAL FOREIGN

DEPOSITS, BUT BANK'S PRESENT GREAT LIQUIDITY IN THE US HAS MINIMIZED THE NEED FOR ANY EURODOLLAR FUND RAISING. THE PLANNED MAINTENANCE OF A SALES REPRESENTATIVE IN EUROPE WILL ENABLE THE BANK TO CONTINUE BOOKING LOANS IN THIS MARKET.

4. EQUIBANK'S DIRECTOR HERE TOLD ECONOFFICER THAT THE LUXEMBOURG BANKING COMMISSION HAS A DEFINITE ANTI-BRANCH BIAS AND FAVORS THE SUBSIDIARIES. THIS WAS REFLECTED IN COMMISSIONER DONDELINGER'S RECOMMENDATIONS TO EQUIBANK LAST YEAR: (A) TO REDUCE ACTIVITIES, CONSIDERING SIZE OF BANK'S INFUSED CAPITAL BASE); (B) TO INCREASE CAPITAL; (C) OR LEAVE LUXEMBOURG. EQUIBANK DIRECTOR NOTED THAT THIS PAST YEAR THE BANK HAD MANAGED TO DO ALL THREE IN PRECISE SEQUENCE. HE ALSO POINTED OUT THAT OF THE 13 ACTIVE MEMBERS OF THE AMERICAN BANKERS' ASSOCIATION HERE, UNTIL RECENTLY SEVEN WERE SUBSIDIARIES AND SIX BRANCHES. BOTH CLOSINGS WERE BRANCHES AND AT LEAST TWO OF THE REMAINING FOUR BRANCHES HAVE REDUCED ACTIVITIES IN RECENT MONTHS. THERE ARE, HOWEVER, NO RUMORS OF ANY FURTHER CLOSINGS.

5. ALTHOUGH THE US BANKING PRESENCE HAS SHRUNK SOMEWHAT, THE INTERNATIONAL BANKING COMMUNITY IS MORE THAN HOLDING ITS OWN. RECENT AND UPCOMING ARRIVALS INCLUDE MAJOR NORWEGIAN, SWEDISH, FINISH, SWISS AND TWO ITALIAN BANKS, PUSHING TOTAL INTO THE MID-EIGHTIES. OBVIOUSLY, EUROPEAN BANKS STILL FIND OPERATING ADVANTAGES HERE WHEREAS FOR SEVERAL US BANKS THE CHANGING BANKING CLIMATE IN THE US AND THE REMOVAL OF CERTAIN RESTRICTIONS, MAKE A PHYSICAL PRESENCE IN EUROPE LESS NECESSARY. CERTAINLY, THE VOGUE FOR HAVING A EUROPEAN OFFICE STATUS SYMBOL OF THE LATE SIXTIES/EARLY SEVENTIES DEFINITELY SEEMS TO BE OVER AND UNCLASSIFIED

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COST CONSIDERATIONS ARE PARAMOUNT. IN LUXEMBOURG WITH ITS COMPLEX, EVEN CONFUSED, METHOD OF CALCULATING TAX OBLIGATIONS IT IS EVEN DIFFICULT FOR A US BANK (WITH ITS ACCOUNTS NOT DENOMINATED IN BELGIAN FRANCS) TO BE SURE OF ITS PROFIT AND LOSS STATEMENT. EQUIBANK, FOR INSTANCE, HAS NOT YET HAD ITS 1973 TAX RETURN APPROVED AND CANNOT THEREFORE FILE FOR 1974 AND 1975. ONE OTHER US BANK HAS NOT FILED FOR FOUR YEARS. THE RESULTING UNCERTAINTY ABOUT TRUE PROFITABILITY IS NOT WELCOMED BY THE US PARENT BANK IN ASSESSING THE WORTH OF ITS LUXEMBOURG OFFICE. PHILLIPS

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